

The Official Website of the Department of Revenue (DOR)

Department of Revenue

 **Mass.gov**

Mass.Gov Home State Agencies State Online Services

- DOR Home
- For Individuals and Families
- For Businesses
- For Local Officials
- For Tax Professionals

Home > Businesses > Help & Resources > Legal Library > Letter Rulings > Letter Rulings - By Year(s) > (2000-2004) Rulings >

Letter Ruling 03-3: Group of Related Partnerships/Composite Filing

April 23, 2003

You request a letter ruling on behalf of ***** (“Partnership One”), ***** (“Partnership Two”), and ***** (“Partnership Three”). You request a ruling on the eligibility of Partnership One and Partnership Two to file a composite return on behalf of its electing non-resident partners for Massachusetts personal income tax purposes.

I. Facts

The following is your representation of the facts upon which we base our letter ruling. Partnership One is a registered limited liability partnership under the Delaware Revised Uniform Partnership Act. It is treated as a partnership for federal and Massachusetts income tax purposes. Partnership One has 2,179 individual partners and one non-individual partner, Partnership Three.

Partnership Two is a registered limited liability corporation under the Delaware Limited Liability Company Act. It is treated as a partnership for federal and Massachusetts income tax purposes. Partnership Two has 545 individual partners and one non-individual partner, Partnership Three.

Partnership Three is a limited liability partnership under the Delaware Revised Uniform Partnership Act. It is treated as a partnership for federal and Massachusetts income tax purposes. Partnership Three is the partnership holding entity for Partnership One and Partnership Two. All of Partnership Three’s partners are individuals and each partner is a partner in either Partnership One or Partnership Two.

All of the partners in Partnership One are also partners of Partnership Three. All of the partners in Partnership Two are also partners of Partnership Three.

Partnership One, Partnership Two and Partnership Three each have a fiscal year ending on the Saturday nearest to May 31st. All of the partners in Partnership One, Partnership Two, and Partnership Three to be included in the composite returns are individuals, and all are calendar year taxpayers for federal income tax purposes. For the tax year ended June 1, 2002, all three partnerships will report taxable income.

II. Rulings Requested

You request the following rulings:

SEARCH

Select an area to search

Search

1. Permission for Partnership One partners to file a single composite Massachusetts return reporting each partner's income or loss from Partnership One and Partnership Three. The composite return will include all of the eligible partners who elect to be included;
2. Permission for Partnership Two partners to file a composite return reporting each partner's income or loss from Partnership Two and Partnership Three. The composite return will include all of the eligible partners who elect to be included;
3. Permission for estimated tax payments paid by Partnership Three on behalf of its partners to be allocated between Partnership One and Partnership Two. Partnership Three will not be required to file a composite return on behalf of its non-resident partners if such partners will be included in the composite return for either Partnership One or Partnership Two.

III. Discussion of Law

A partnership that does business in Massachusetts generally is required to file Form 3, Massachusetts Partnership Return of Income. Non-resident partners of such partnership are also required to file an individual return, Form 1-NR. However, for taxable years beginning on or after January 1, 1997, any partnership with two or more qualified electing non-resident partners may file a composite tax return as an agent for the qualified electing non-resident partners. See Massachusetts regulation, 830 CMR 62.5A.1(12)(f), Non-Resident Income Tax. If a composite return is filed, no individual returns are required to be filed.

In general, to be "qualified," a non-resident partner must meet several requirements set forth in the Non-Resident Income Tax Regulation (the "Non-Resident Regulation"), including the requirement that "the partner must be an individual or the estate or trust of a deceased non-resident partner." See 830 CMR 62.5A.1(12)(f)1.a. The other requirements are that the non-resident partner must: (1) be a non-resident for the entire year; (2) have no other Massachusetts source income other than income from the partnership; [\[1\]](#) (3) sign the required Massachusetts statement for composite returns; and (4) waive the right to claim Massachusetts deductions, exemptions and credits. See 830 CMR 62.5A.1(12)(f)1.b-e. Partners included in a composite return must also have the same taxable year, which generally will be the calendar year. See 830 CMR 62.5A.1(12)(f)3.

Composite returns are also allowed to be filed by tiered partnerships, or *similar groups of related flow-through entities* if each partnership and non-resident partner otherwise meets the requirements of section 12(f) of the Non-Resident regulation. A non-resident partner will not be disqualified from participating in the filing of a composite return if all of the partner's Massachusetts source income is derived from one or more of the related partnerships included in the tiered partnership return. Moreover, a non-resident partner with Massachusetts source income not derived from the partnerships included in the composite return may not participate in the filing of the composite return. See 830 CMR 62.5A.1(12)(h).

In addition to satisfying the general requirements under section 12(f) of the Non-Resident regulation, the following additional requirements must also be met: (1) each of the lower-tier partnerships (including any related flow-through entity with individual partners or shareholders) must join in the filing of a single composite return on behalf of its electing non-resident partners and the designated partner of each such partnership must sign the return; (2) a schedule must be attached to the composite return indicating each partner's distributive share of Massachusetts source income from each partnership, and the total amount of Massachusetts source income received by each partner from all partnerships; (3) a statement must be attached to the composite return, preferably including an organizational chart, disclosing the structure and identity of all the related entities from which participating non-resident partners directly or indirectly derive Massachusetts source income; and (4) the words "Tiered Entity Composite Return" must be clearly indicated on the face of the return. See 830 CMR 62.5A.1(12)(h)1-4.

IV. Conclusion

Based on the above, we rule that the relationship between Partnership One, Partnership Two, and

Partnership Three constitutes a group of related flow-through entities for purposes of 830 CMR 62.5A.1(12)(h). Therefore, Partnership One and Partnership Two are not precluded from filing composite returns if they otherwise meet and comply with the provisions of 830 CMR 62.5A.1(12)(f) and (h). Estimated tax payments made by Partnership Three on behalf of its non-resident partners shall be allocated between Partnership One and Partnership Two. Partnership Three will not be required to file a composite return on behalf of its non-resident partners if such partners will be included in the composite return for either Partnership One or Partnership Two.

Very truly yours,

/s/Alan LeBovidge

Alan LeBovidge
Commissioner of Revenue

AL:LEM:rmh

LR 03-3

[\[1\]](#) This includes consideration of the partner's spouse, if any. See 830 CMR 62.5A.1(12)(f)1.c.